

Low-income housing tax credit foreclosure data

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Limiting Conditions

- ▶ The procedures we have undertaken were performed solely to assist you in understanding foreclosures and other risk factors relating to low-income housing tax credit investments based on available data. Consequently, Ernst & Young LLP (“E&Y” or “we”) make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.
- ▶ We were not engaged to, and thus did not perform, an audit or examination, the objective of which would be the expression of an opinion on the accompanying financial information. Accordingly, we do not express any opinion on the accompanying financial information. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. We have no responsibility to update this report for events and circumstances occurring after the date of this report.
- ▶ **The tax advice contained herein was not intended or written by E&Y to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed on the recipient.**

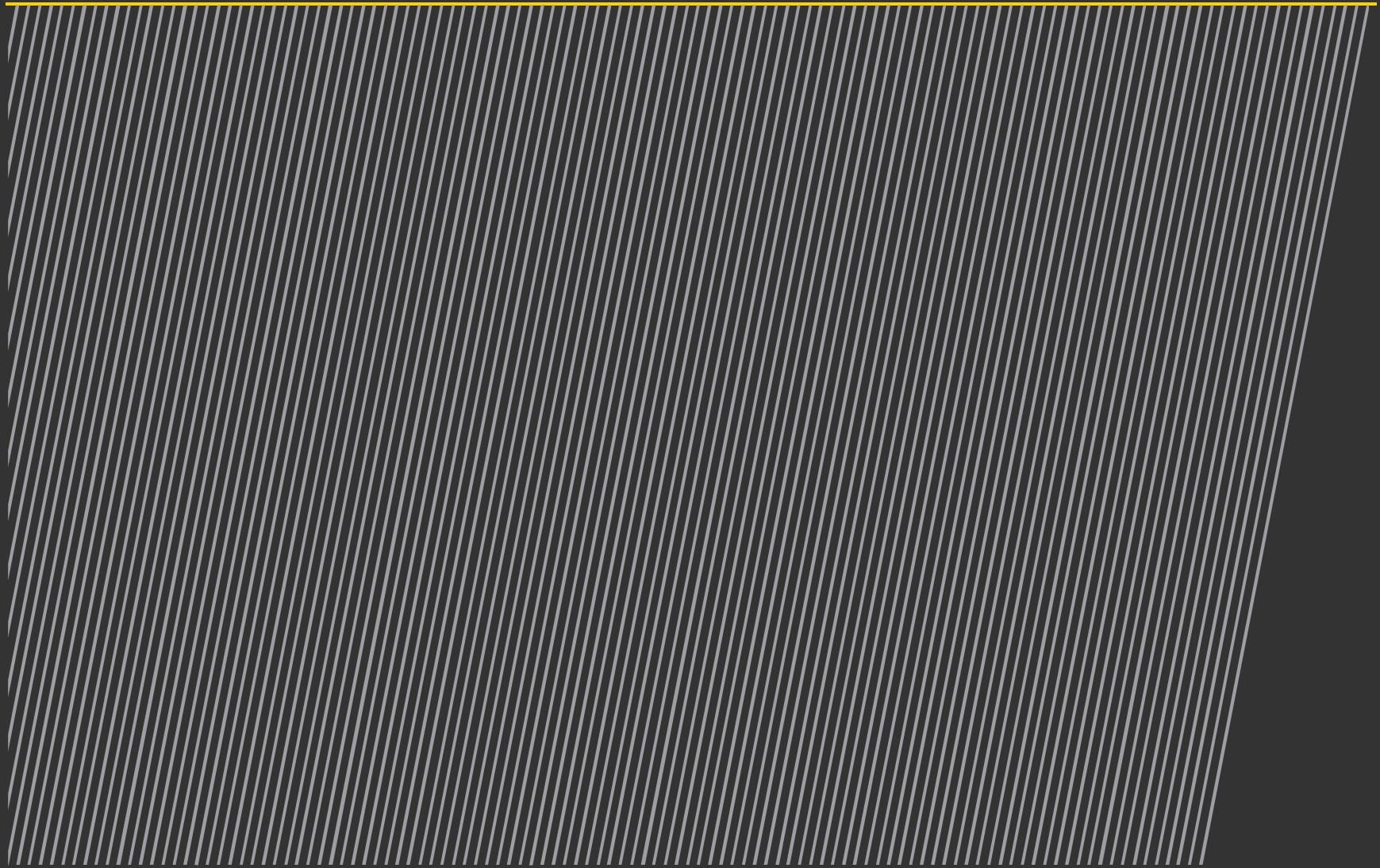
Overview and Methodology

- ▶ This report provides foreclosure data including foreclosure trends in housing tax credit properties relative to other real estate asset classes.
- ▶ During 2010 we conducted a survey of syndicators and direct investors that participated in EY's most recent low-income housing tax credit performance study, *Understanding the Dynamics V*. This survey focused exclusively on failed properties to understand how foreclosure rates have changed from the end of 2006 through 2009.
- ▶ We sent a survey questionnaire to all 32 participants that provided data for *Understanding the Dynamics V*. The questionnaire asked for data on properties that had foreclosed from 2007 to 2009. We received responses from 23 of the 32 data providers, for a response rate of 72%.
- ▶ For comparison and trending purposes, the 2006 data referenced within this report is only from those 23 companies that responded to our recent study.

Overview and Methodology

- ▶ We did not receive updated foreclosure data from the one respondent that reported 40 foreclosures through 2006 or data for any years from some inactive syndicators. There is anecdotal evidence which suggests that many of the non-responding or inactive syndicators have seen a higher than average rate of foreclosure. Therefore, since the subset data in this report is representative of only 23 respondents, the actual foreclosure rate may vary.

Summary of Foreclosure Results



Summary of Results

	# of Properties	Total Equity (\$M)	% Foreclosed	% Foreclosed Equity
2006 Study	12,697	\$31,259	0.68%	0.34%
Update	9,595	\$23,433	0.83%	0.83%

- ▶ The cumulative foreclosure rate has increased from 0.68% of properties in the 2006 study to 0.83% in the 2009 study update.
- ▶ The percentage of foreclosed equity increased from 0.34% in 2006 to 0.83% in 2009. Higher foreclosure rates over the past three years among larger properties account for this difference.

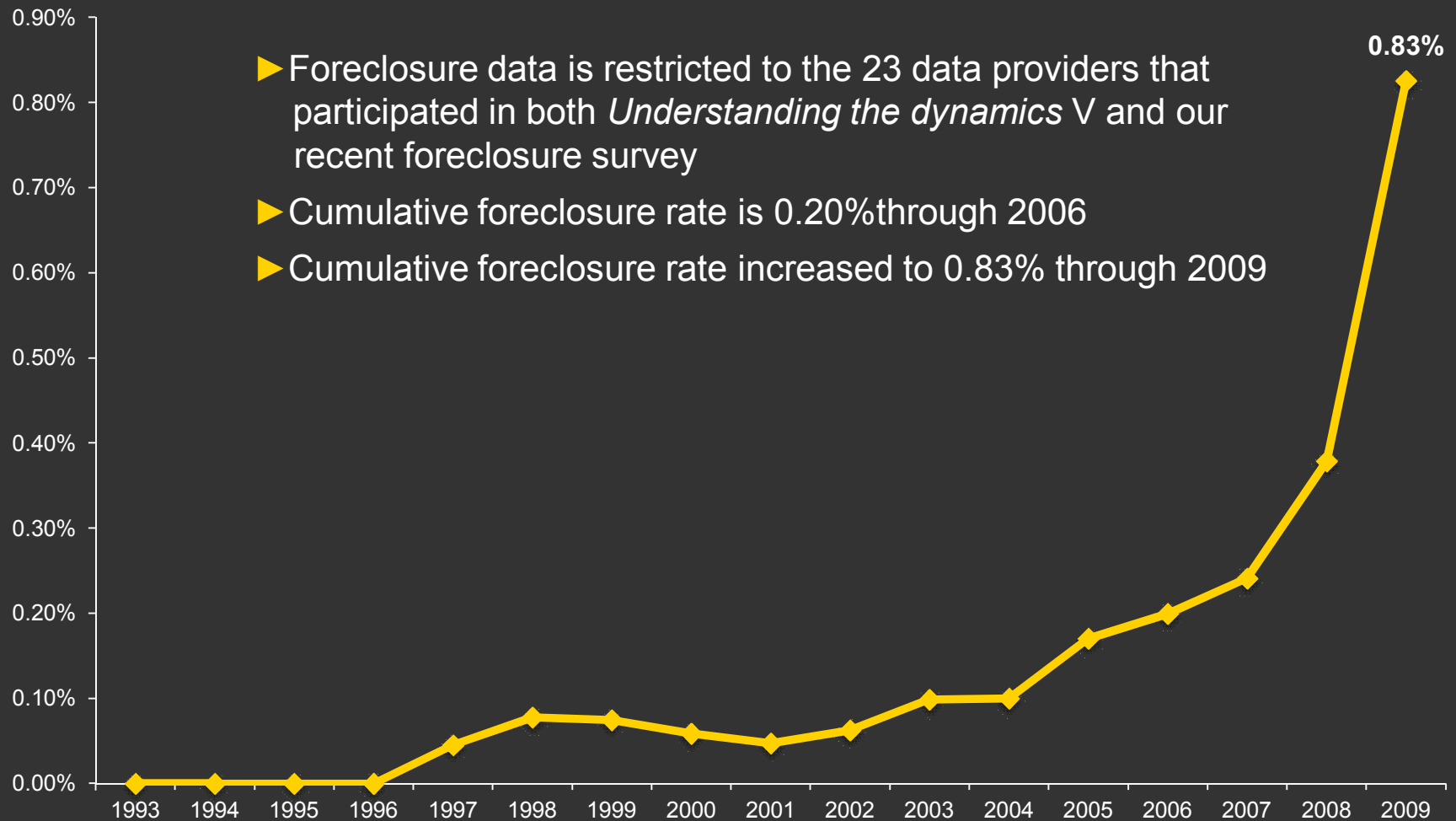
Summary of Results

- ▶ There were differences in the respondent pool from 2006 to 2009. For comparison and trending purposes, restricting the foreclosure data to include only those data providers that participated in both *Understanding the dynamics V* and our recent foreclosure survey, results in a cumulative foreclosure rate through 2006 of 0.33% of properties and 0.20% of equity (versus 0.68% of properties and 0.35% of equity for the entire participant pool for the 2006 study).
- ▶ We did not receive updated foreclosure data from the one respondent that reported 40 foreclosures through 2006 or data for any years from some older syndicators that are no longer actively in the syndication business.

Cumulative Foreclosures	2006*	2009
% of Properties Foreclosed	0.33%	0.83%
% of Foreclosed Equity	0.20%	0.83%

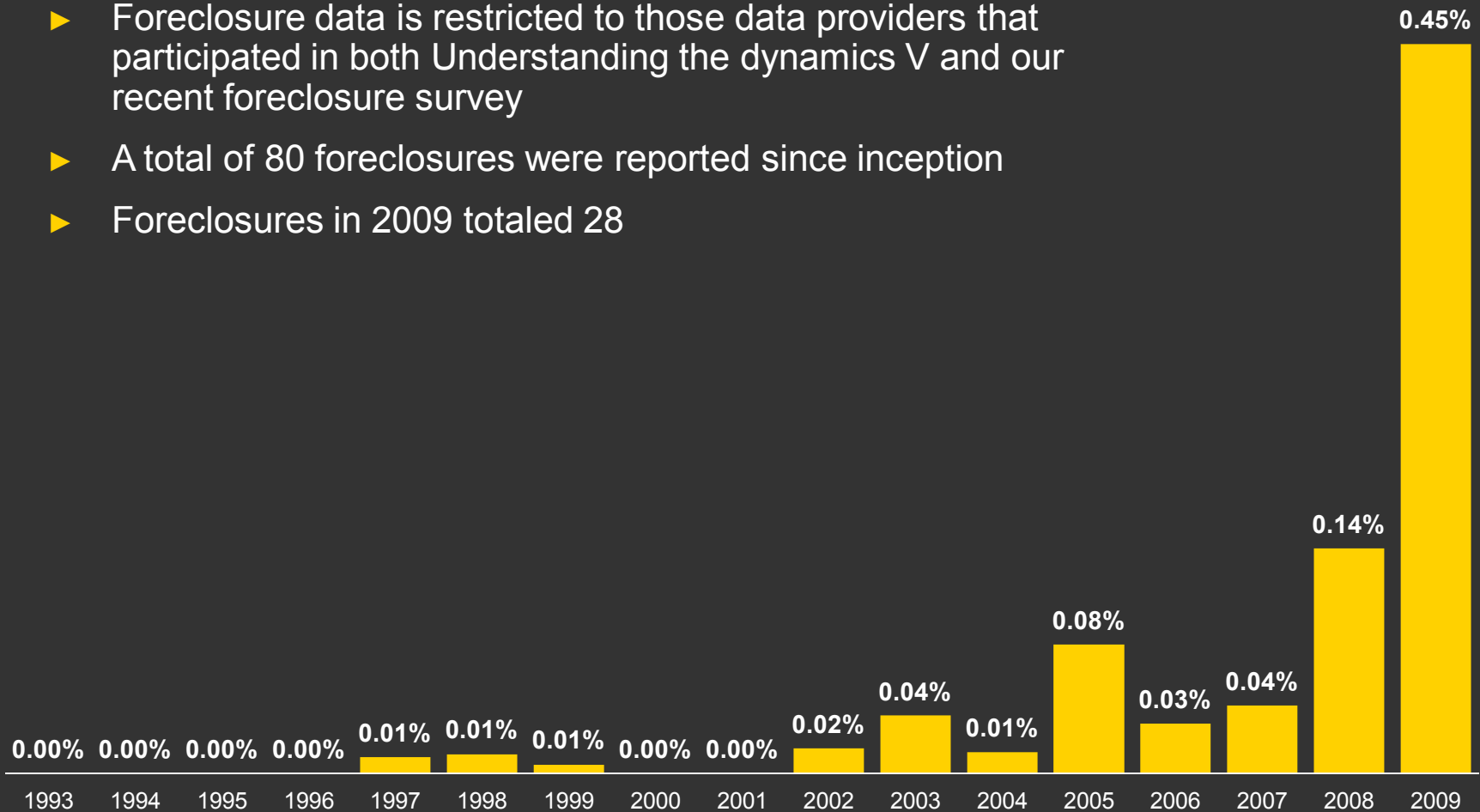
*Data for *Understanding the Dynamics V* restricted to only those data providers that participated in the update survey

Cumulative Foreclosure Rates (% of equity)

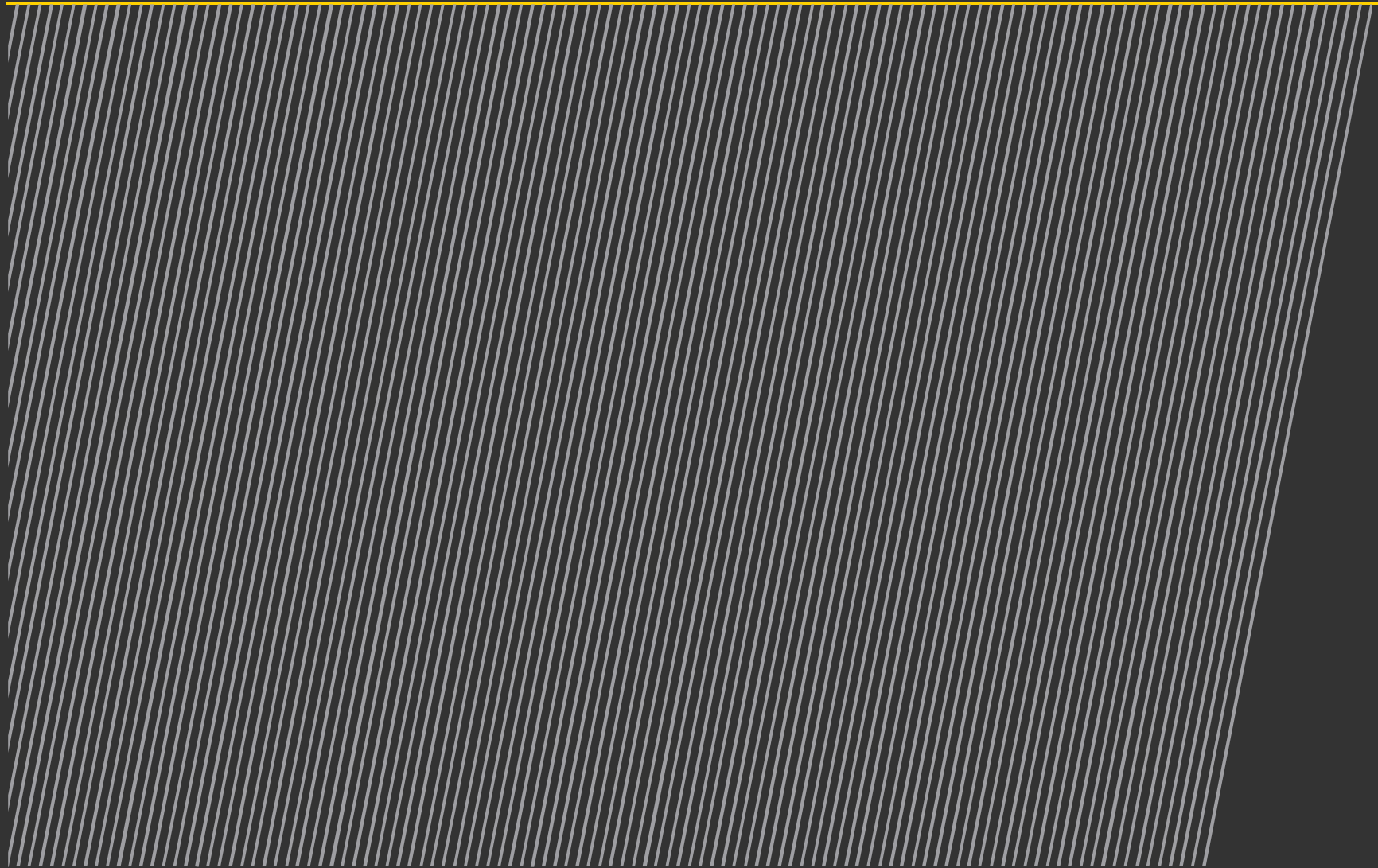


Annual Foreclosure Rates

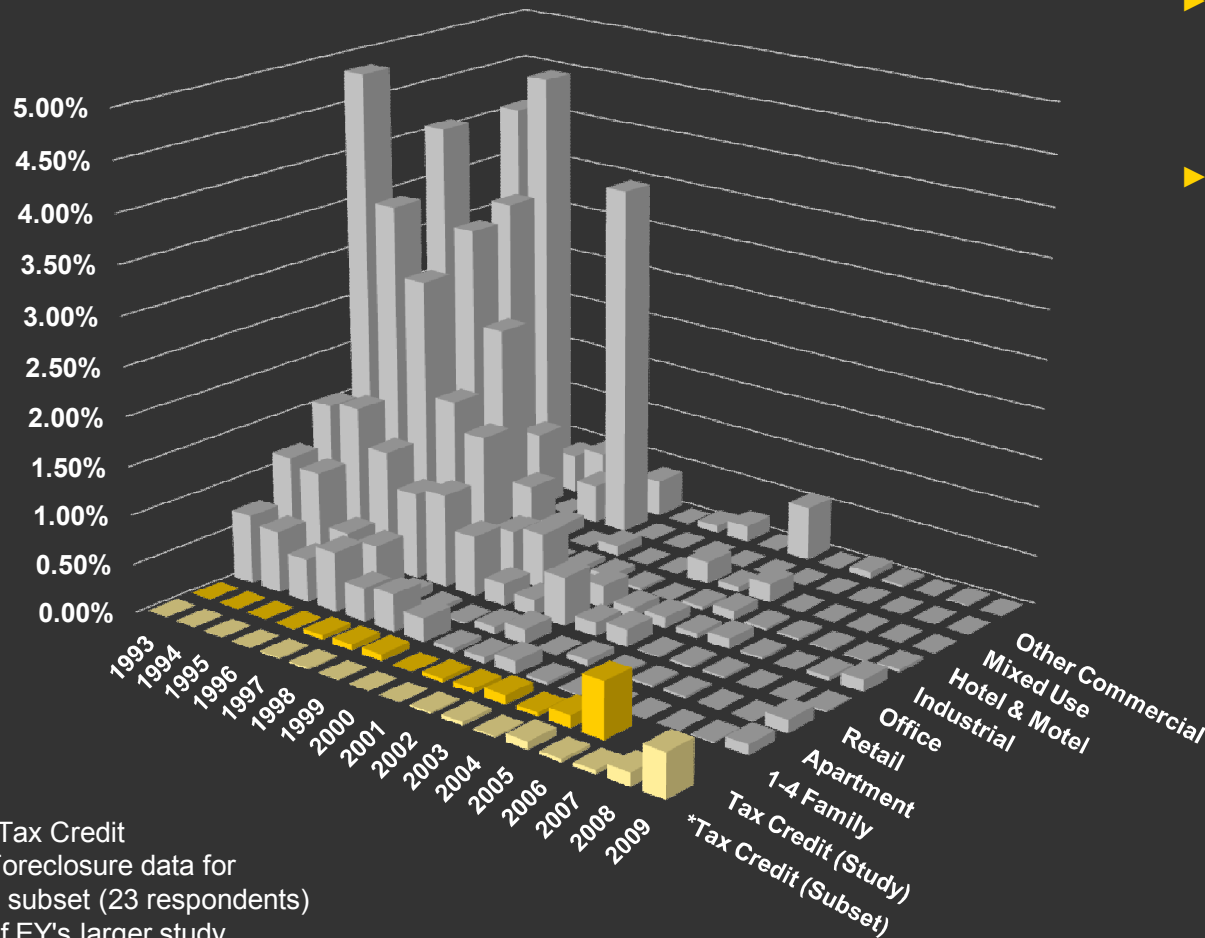
- ▶ Foreclosure data is restricted to those data providers that participated in both Understanding the dynamics V and our recent foreclosure survey
- ▶ A total of 80 foreclosures were reported since inception
- ▶ Foreclosures in 2009 totaled 28



LIHTC Foreclosure Trends Relative to Other Real Estate Asset Classes



Annual Foreclosure vs. ACLI Data

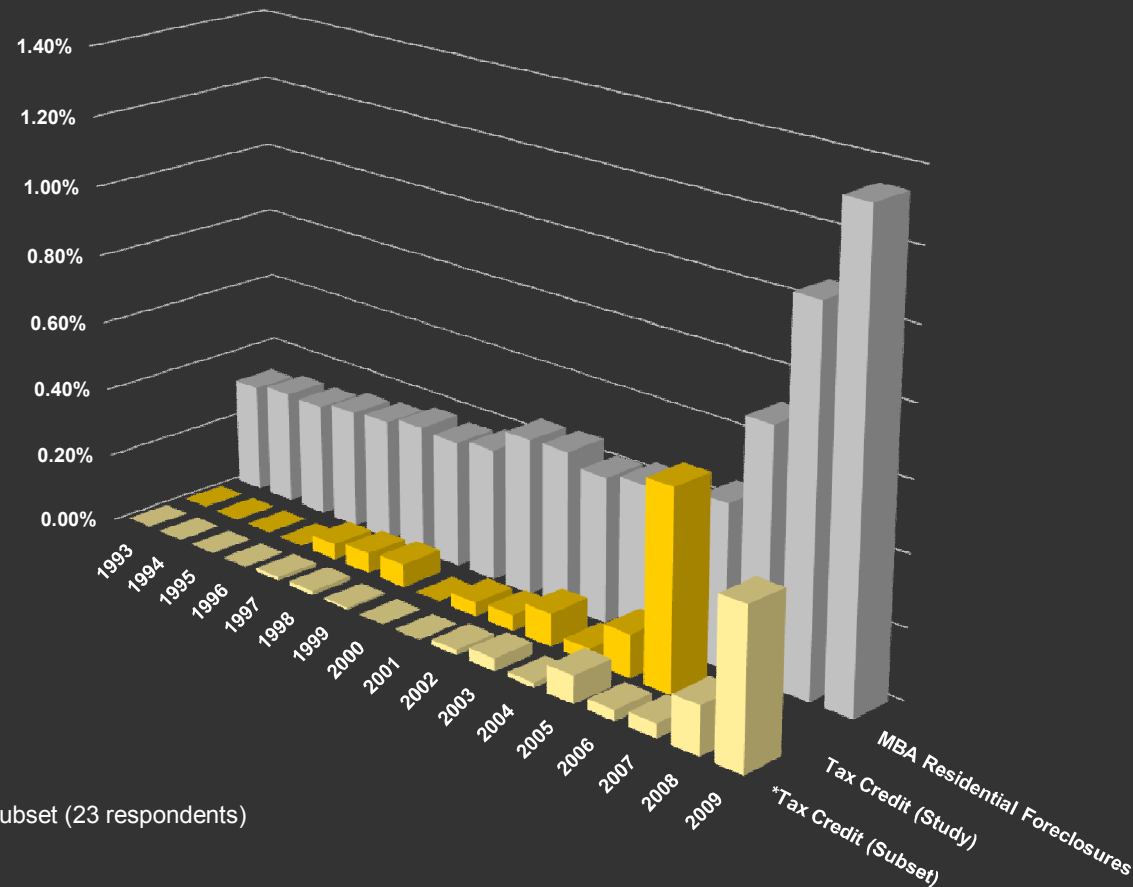


*Tax Credit
Foreclosure data for
a subset (23 respondents)
of EY's larger study

- ▶ We plotted the annual housing credit foreclosure data against the ACLI foreclosure data for other real estate classes.
- ▶ As shown, the trend for housing credit properties is the opposite of that shown for other real estate classes through 2009. However, based on discussions with insurance company contributors to this data set, it is believed that the ACLI is increasingly unrepresentative of broader market conditions. Insurance companies increasingly shed all but their most marquis real estate holdings in the 1990's, resulting in an aggregate improvement in portfolio quality.

Tax Credit Foreclosures vs. MBA reported new residential foreclosures (through 2009)

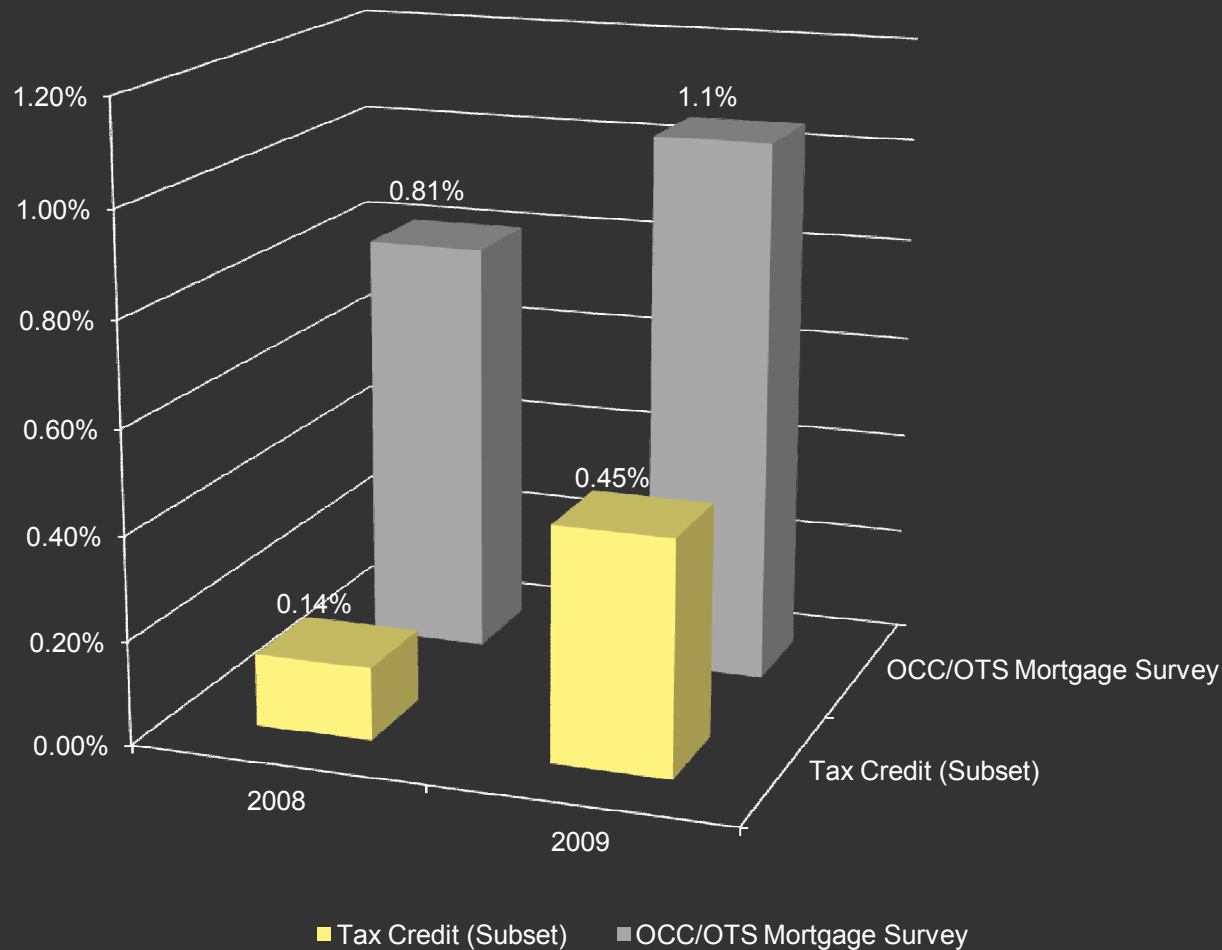
MBA data shows a similar increasing trend in foreclosures, but LIHTC foreclosure rates are still below those of other residential real estate.



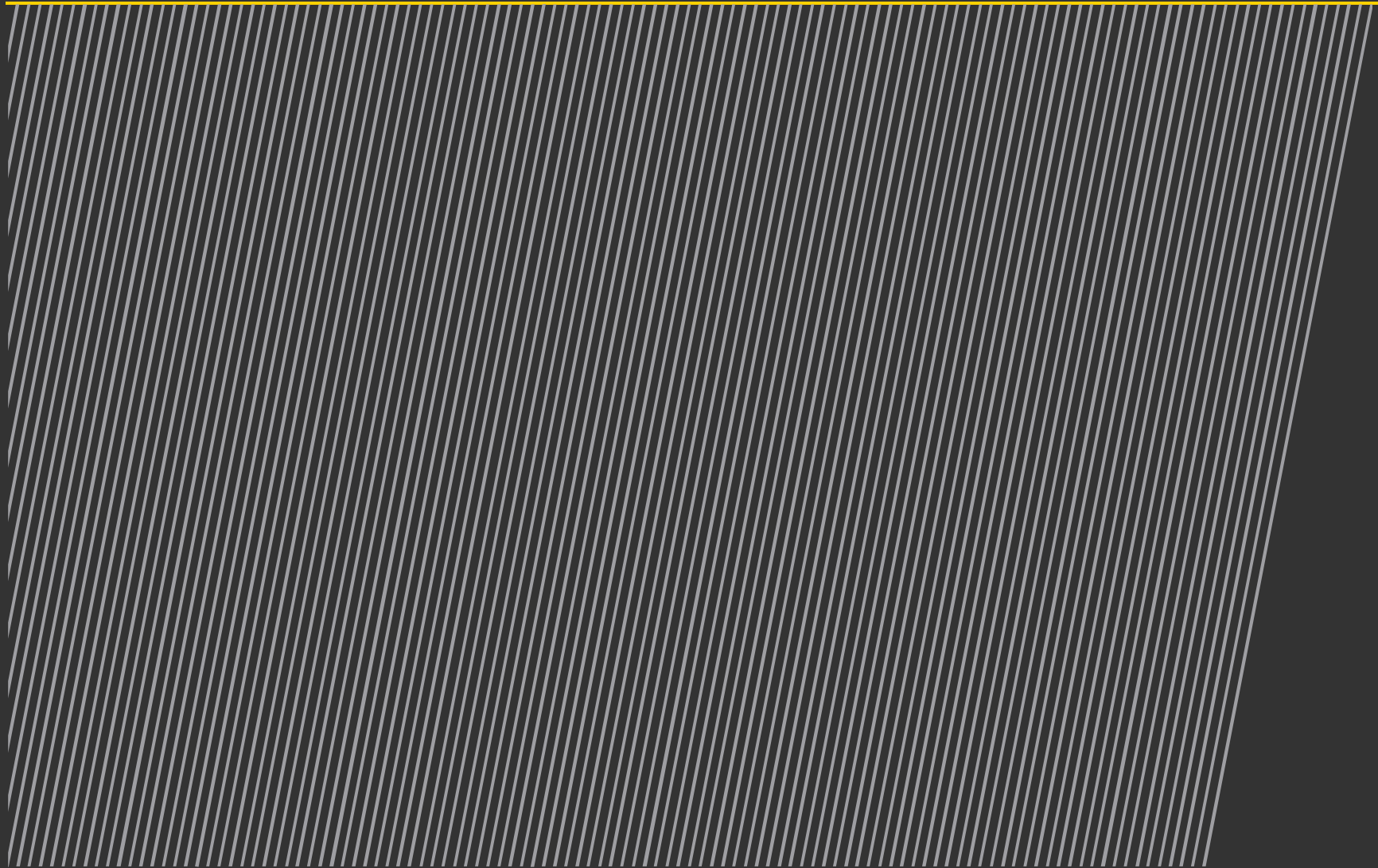
*Tax Credit Foreclosure data for a subset (23 respondents) of EY's larger study

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
*Tax Credit (Subset)	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%	0.01%	0.00%	0.00%	0.02%	0.04%	0.01%	0.08%	0.03%	0.04%	0.14%	0.45%
Tax Credit (Study)	0.00%	0.00%	0.00%	0.00%	0.05%	0.06%	0.07%	0.00%	0.04%	0.05%	0.09%	0.04%	0.12%	0.57%			
MBA Residential Foreclosures	0.32%	0.33%	0.33%	0.35%	0.35%	0.37%	0.37%	0.38%	0.45%	0.45%	0.42%	0.43%	0.41%	0.46%	0.71%	1.07%	1.34%

Tax Credit Foreclosures vs. OCC/OTS reported new residential foreclosures (incl. deed in lieu) (2009)



- ▶ We also compared the 2008 and 2009 foreclosure figures to data published in the OCC and OTS Mortgage Metrics Report, Disclosure of National Bank and Federal Thrift Mortgage Loan Data Fourth Quarter 2008 and 2009. (This is a relatively recently begun report, and minimal historical data is available.)
- ▶ The OCC/OTS data represents single-family residential mortgage foreclosure (and deed in lieu) data jointly reported for the two banking regulators for 2008 and 2009 (averaged quarters).
- ▶ This data suggests that while the tax credit foreclosure rate increased sharply from 2008 to 2009, the annual foreclosure rate remains below the residential mortgage foreclosure rate.



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